

OIL

Troubled waters

Risks lie in unresolved claims to East Asia's seabed

By Mark Valencia

With the extension of national jurisdiction over maritime resources and certain activities, no seabed area in the East Asian seas — the Yellow Sea, East China Sea and Sea of Japan — is left unclaimed. Much of that seabed area is subject to overlapping claims or unresolved boundaries. Some disputed areas have good petroleum potential.

Currently, oil prices are down; exploration and drilling have decreased. However, global demand will eventually outstrip supply, and as it does, the East Asian seabed will receive renewed attention.

Northeast Asia contains probably the most divided regional pattern of state relations in the world. In addition to historic enmities, there are cleavages between communist and Western alignments, and between the communist Soviet Union and China, as well as the rivalries of the two divided states, China and Korea. Indeed, there are four countries — China, Japan, Korea and the Soviet Union — and six governments.

Maritime issues are a relatively minor part of the regional strategic picture. However, given the tenuous or hostile relations between most of the states and the likelihood of petroleum in disputed continental shelf areas, such maritime issues could become the "tail" that wags the "dog."

Most of the actual or potential maritime boundary disputes are concerned with the ownership of islands or with unusual claims. For example, China has claimed the portion of the continental shelf covered with silt eroded from China's hinterland — the "silt line" principle. Problems could arise between China and North Korea if China maintains the silt-line principle or, alternatively, claims an exclusive economic zone (EEZ) extending from Haiyang Island, 69 km off the Liaodong Peninsula.

A boundary along the silt line would give almost the entire Bay of Korea Basin to North Korea, whereas if the boundary was the equidistant line between the coast of the two countries, most of the basin — including its core — would go to China; only a small pod of possible petroleum-bearing sediment would lie on the North Korean side of the line.

In the Sea of Japan, the continental shelf boundary drawn by South Korea and Japan in 1974 stopped about 70

nautical miles from Liancourt Rocks (known as Tok Do in Korean and Take-shima in Japanese) — two tiny islets 29 km east of South Korea's Ullung Do and 50 km northwest of Japan's Oki Islands. Tok Do is uninhabitable and under the Law of the Sea Convention should not have an EEZ (which can extend up to 200 nautical miles) or continental shelf, though it may have a 12 nautical-mile territorial sea. Since 1952, the two countries have disputed the ownership of Tok Do, which permits claims to about 16,600 sq nautical miles of sea and seabed. It is occupied by South Korea.

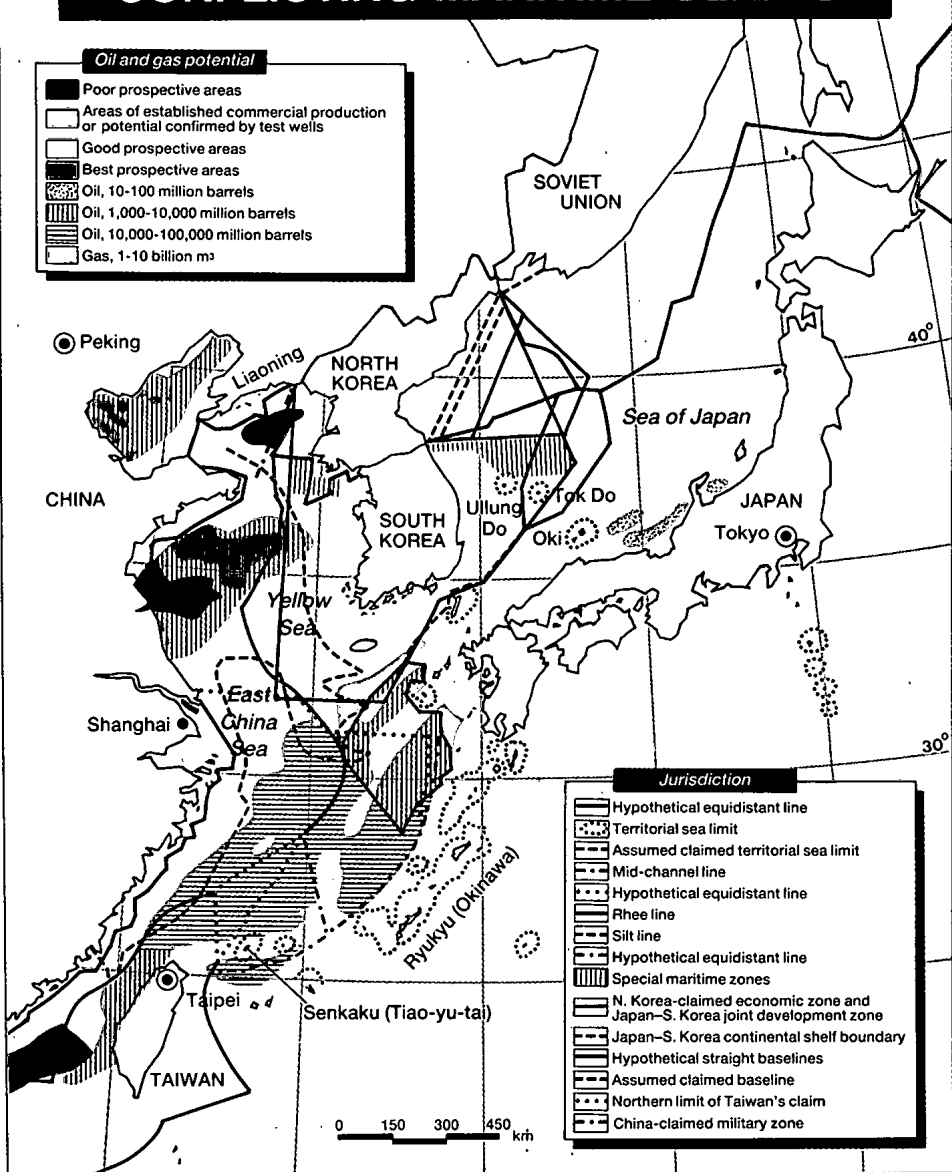
At stake in the Sea of Japan is a polyhedron area encompassing the northeastern Tsushima Basin and the

southwestern Yamato Rise and Trough. If Japan owns Tok Do, it will obtain a small northeastern portion of the Tsushima Basin and almost the entire Yamato Rise and Trough. If South Korea owns Tok Do, then it would gain the northeastern portion of the Tsushima Basin as well as the southwestern end of the Yamato Rise and Trough.

Another potential problem in the Sea of Japan exists between North Korea and South Korea, and between North Korea and the Soviet Union. The boundaries of North Korea's claimed military warning zone and EEZ extend beyond the hypothetical equidistant lines with both neighbours. North Korea's claimed EEZ even extends beyond a hypothetical equidistant line with Japan based on Japanese ownership of Tok Do.

The Yellow Sea Basin is thought to contain 1-10 billion barrels of oil, with good prospective areas. The silt line boundary would place the entire basin on the Chinese side of the line. If the boundary was the equidistant line, most

CONFLICTING MARITIME CLAIMS



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REVIEWMAP by Andy Tang

of the basin would be on the Chinese side but half of a pod of potential oil-bearing sediment, including a tip of the most prospective area, would be on the South Korean side. Three South Korean — approved wells drilled on its side of the equidistant line proved dry.

In the East China Sea — thought to contain 10-100 billion barrels of oil — there is a three-way claim in the southern part involving China, Taiwan and Japan over the Senkaku Gunto (known in Chinese as either Diaoyudao or Tiao-yu-tai), a group of five coral islands, about 90 nautical miles northeast of Taiwan. Possession of the islands would confer title over about 11,700 sq nautical miles of the continental shelf landwards of the 200-m isobath (depth-line).

Japan announced in March 1972 that it would only discuss Senkaku with China, and not Taiwan. However, Japan has not been in any hurry to reach agreement, lest it might damage trade with Taiwan. Japan has said that it will not sanction petroleum exploration until ownership is resolved.

Meanwhile, in the northern East China Sea an equidistant line between China, South Korea and Japan would bisect the Taiwan-Sinzi Basin in a manner which would give the largest area to China. China has discovered oil on the eastern flank of the basin core hard against the line. If the silt line was the boundary, most of the basin would go to Japan and South Korea, though China would get a tongue of the extreme northern core of the basin.

In short, the silt line boundary is advantageous for China in the Yellow Sea but disadvantageous in Korea Bay and the East China Sea. The northern limit of Taiwan's claim includes almost all the potential oil-bearing sediments of these basins.

At stake in the southern East China Sea is a trapezoidal area encompassing portions of at least three major sub-basins, which has good prospects in its northern two-thirds and in its southwestern corner. These two sub-basins are separated by an area of low prospectivity around the Senkaku Islands.

If China owned the Senkakus, most of the area would belong to China, including those with the thickest sediment, while Japan would retain thick sediments on the eastern margin of the Taiwan-Sinzi Basin and the Okinawa Trough Basin. If the Senkakus were ignored in a boundary settlement, the southern part of the East China Sea Basin would be split almost evenly in terms of area and sediment thickness. If Japan owned the Senkakus, much more of the basin would be Japan's, though an area which has yielded many dry holes and one Chinese oil strike would accrue to China. If the Okinawa Trough axis were the boundary, almost all of the basin area would fall to China.

Even if the Senkaku issue were settled amicably in favour of China, there



Drilling for oil: diplomatic wrangles.

XINHUA

would remain a potential difficulty. The equidistant line between the undisputed islands of Japan and the Chinese mainland leaves on the Japanese side of the line an area of 9,000 sq nautical miles of the Asian continental shelf landward of the 200-m isobath. China claims the broad adjacent continental shelf, and argues that the shelf ends at the Okinawa Trough — near the Ryukyu (Okinawa) Islands — with water depths of 2,000 m. Japan might argue that the trough is just an incidental depression in a continuous continental margin between the two countries and that the equidistant line is the appropriate boundary.

China has rebuffed Japan's repeated offers to discuss the shelf question on the grounds that any solution to the boundary mark in the Yellow and East China seas must be multilateral, involving all claimants. However, South Korea's attempts to discuss the issue with the Chinese have been rejected because China only recognises North Korea as the legitimate government of the Korean peninsula. Consequently, the outer boundaries of all South Korean leases are disputed by China.

China has sent drilling rigs and seismic vessels on preliminary surveys to areas where Chinese claims overlap those of its neighbours. For example, the Longjing 1 well was more than 64 km beyond a hypothetical Chinese-South Korean median line suggested by Seoul as a basis for dividing up the resources of the Yellow Sea and adjacent areas of the East China Sea.

Since Longjing 1 and 2, Donghai 1 and Pinghu 1 in 1981-82, China has drilled at least one exploratory well each year in contested areas of the East China Sea. China may be using the whiff of oil to lure Japan into a delimitation agreement which implicitly recognises China as the sole representative of the maritime claims, for example with its

so-called "successful" drilling adjacent to the South Korea-Japan Joint Development Zone (JDZ) boundary.

Chinese officials have suggested that a realistic appraisal of regional economic needs and cooperation should take precedence over a narrowly "legalistic" or "historical" approach. The implication is that Japan must agree to suspend its claim to sovereignty over the Senkakus as a precondition for any negotiations on cooperative oil arrangements. A collision with Tokyo

cannot be ruled out, for Peking has based its claim to the islands on the grounds that they are an integral part of Taiwan.

Apart from the Taiwan issue, Peking's decision to proceed with Longjing 1 in early 1981 may have been prompted by an impasse in secret preliminary discussions between China and Japan which were designed to set the stage for formal seabed negotiations. In November 1980, four Japanese Law of the Sea specialists went to Peking for unannounced talks that ended in stalemate. Tokyo insisted on a equidistant line approach. But Peking, asserting the "natural prolongation" doctrine (which asserts sovereignty over the entire continental shelf because it is a natural extension of the landmass), advocated the creation of JDZs that would give China a share of the suspected oil on the Japanese side of the continental shelf.

China has asked Japan to cooperate in joint studies on exploration and development of oil in the East China Sea, and Teihoko Oil Co. is to establish a representative office in Peking sponse to this request. China also continues to woo Taiwan. Indeed, just a few weeks after China's announcement of its successful wells in 1981, it made a nine-point proposal to Taiwan for reunification talks including joint development of now-known offshore petroleum resources.

What are the possible solutions? One scenario would be for China and Japan to agree on an equidistant line — Taiwan would be tacitly treated as an autonomous province of China. Taiwan could perhaps be persuaded by economic sweeteners from Washington, Tokyo and Peking, to phase out its northernmost offshore concessions. Taipei would retain its economic autonomy, but would give up seabed claims based on its claim to jurisdiction over the mainland.

Peking and Taipei might then jointly develop the resources on the Chinese

side of the equidistant line. China has suggested this arrangement, including the possibility of joint-venture companies in which Peking's China National Offshore Oil Corp. and Taipei's China Petroleum Corp. would join with American oil companies, including those which Taipei granted rights in the East China Sea. Taiwan might even be able to develop its "provincial" areas under its own authority.

The US and Japan could promote this scenario by making clear that their recognition of Peking as the sole legitimate government of China implies Peking legitimately represents China's seabed claims, and for Japan to explore an agreement. The ensuing Sino-Japanese negotiations could focus on a comprehensive agreement. Peking and Tokyo could then begin negotiating

boundary-making in good faith, during which time they could conduct joint assessment of the petroleum resources in the area prior to launching a full-scale JDZ programme.

Joint development could be particularly attractive to China because it would not have to relinquish residual legal claims to the shelf based on its natural prolongation theory, which it may wish to continue to use vis-à-vis South Korea. Also, China could acquire Japanese technology and knowledge which could be applied to oil development elsewhere on its shelf. An alternative would be to divide the area into different portions based on the degree of difficulty in resolving the boundary, and a JDZ agreement could thus be adapted to portions of the seabed.

Ownership of the Senkakus themselves should not matter greatly. Be-

cause the islands are not economically self-sustaining, they may not be eligible as base points for claiming a continental shelf. Further, most bilateral treaties ignore the effect of small islands in boundary delimitation. In the following options, the first step would be to agree to a 12 nautical mile territorial sea around the Senkakus, and leave that area for joint use and future settlement:

► The region could be divided into north and south zones along latitude 30 degree north, which bisects the East China Sea east to west, passing just south of Shanghai and the southernmost main island of Japan. The equidistance principle could be applied in the north zone. Although the existence of the Japan-South Korea JDZ would complicate matters, the boundary could be the JDZ's western edge. In the south zone, the Okinawa Trough would effect

HONGKONG

An image dented

Defeated liberals give governor cause to worry

By Emily Lau in Hongkong

Amid opposition from a small group of councillors and a demonstration by several hundred people, the Hongkong Government's white paper delaying the introduction of direct elections to the Legislative Council (Legco, the lawmaking body) until 1991 has been duly "noted" by Legco — and two motions by the pro-democracy lobby defeated.

The white paper on representative government, published on 10 February, outlined minimal changes in 1988 and suggested that major reforms be decided by the Basic Law, a mini-constitution for Hongkong after 1997 that is now being drafted by Peking.

On 16 and 17 March, Legco debated the white paper, a policy document that cannot be altered. Some members of the opposing pro-democracy lobby castigated the decision to delay direct elections as bowing to the pressures of Peking and "hoisting the white flag to welcome the red flag." One called the white paper a gross distortion of public opinion and an insult to the people's intelligence.

A motion introduced by Martin Lee to condemn the government for not introducing direct elections this year was defeated by 42-7 votes with one abstention. A further motion by Szeto Wah which opposed the abolition of the power of the district boards to elect 10 members into Legco in 1991, was also defeated. Szeto described the administration as "a short-sighted furless rat in a woollen coat" and some Legco members as "virus carriers."

There was never any question that

the pro-democracy lobby would make much headway. Although Lee and Szeto are seen as its nominal leaders, the lobby is a loose alliance of politicians and pressure groups with little financial support and no long-term strategy. Legco, which consists of 32 appointed members and 24 indirectly elected members, has never voted down a government motion.

Moreover, the government's delaying the debate for five weeks and scheduling it immediately after the district board elections on 10 March made it difficult for the pro-democracy lobby to muster much vocal or physical support so soon after the elections, all the more since many people see the white paper as a fait accompli.

The lobby seems to have drawn some blood, however. Its activities have drawn attention to the white paper, especially in the European and American media. Some British newspapers have described it as a betrayal of the Hongkong people.

This contrasts with the subdued coverage in the local media, which for political and economic reasons has generally played down the controversy. Senior Legco member Lydia Dunn said Hongkong has "wasted too much time and energy in arguing among ourselves,

in indulging in introspection, in chasing shadows, and in distrusting our own government."

The Governor, Sir David Wilson, however, is known to be disturbed by the negative international coverage, perhaps because he thinks it reflects badly on him personally. The Chief Secretary, Sir David Ford,

FINANCIAL TIMES



Wilson: distorted image.

said pictures of the demonstration outside the Legco building and those of a 30-hour protest hunger strike called by 30 post-secondary students from Shue Yan College, had gone around the world and no one knew how they would affect Hongkong's image.

To counter the bad publicity, the pro-government bloc, led by Allen Lee, also a member of the Executive Council (the policymaking body), launched an attack on "a small minority of people" who tried

to damage Hongkong's image. Pro-government Legco member Selina Chow said there was a campaign to create a false impression that the Hongkong people were being shortchanged, betrayed and suppressed by the decisions in the white paper.

Ford rejected accusations that the government had ignored public opinion. The overall reaction to the white paper had been positive, he said, and the people had accepted it as a good basis from which to move on. Continued pressure for direct elections was thus "pointless and unproductive," he said.

The pro-democracy lobby has indicated it will continue to push the direct elections issue, but will refocus its attention on China's draft Basic Law which will be published in May.

the ultimate boundary. Using the coastline ratio derived from the respective lengths of the eastern China and Ryukyu shores, the equidistant line boundary could be adjusted to allocate the south zone in a 64:36 ratio in favour of China.

► The East China Sea could be divided into north and south zones as above and the equidistant line designated as the boundary in the north zone. The boundary could then extend along the equidistant line southwest from the Japan-South Korea JDZ to about 125 degree east, 28 degree 15 minutes north. Thus the JDZ would be the area bounded on the northwest and southwest by an equidistant line based on Japanese ownership of the Senkakus, on the northeast by an equidistant line based on Chinese ownership of the islands, and on the south and southeast by the mid-

channel line of the Okinawa Trough.

► China and Japan would agree to joint development of both north and south zones and to apply the equidistance principle to the remaining area modified by the ratio of coastlines, ignoring the Okinawa Trough.

► China and Japan would agree to joint development of the area bounded by the equidistant line between the Chinese mainland and Japan, the 200-m isobath or the mid-channel line, and the southwestern edge of the Japan-South Korea JDZ.

In the Yellow Sea, the delimitation of the continental shelf between South Korea and China is not complicated by contested islands. Seoul is anxious to negotiate a settlement with Peking. China has expressed a willingness to negotiate, but nothing has come of it. First, a boundary agreement with Seoul

is not urgent for Peking — the oil potential is not great and China has oil resources elsewhere in undisputed areas. Secondly, for China, negotiating with South Korea might be interpreted as de facto recognition of two Koreas.

For these reasons, China would prefer to leave boundaries with South Korea unresolved. Actual confrontation over the issues is unlikely, and with the warming of relations between China and South Korea, China's discoveries of oil and gas within 80 km of the equidistant line may stimulate resolution of the boundary issue, possibly employing a joint venture, or joint development of the disputed area. To start the process, South Korea might agree to modify its equidistance stance to accommodate China's position, thus focusing joint development on the area between China's silt line claim and an equidistant line. ■

Television turnaround

Government's decision to reverse broadcasting policy draws fire

By Emily Lau and Christopher Marchand in Hongkong

In an apparent surrender to political pressure from Peking, the Hongkong Government is introducing new rules to limit foreign ownership of TV stations, and to bar TV licensees from being owned by a holding company or to hold subsidiary companies unconnected with TV broadcasting. The changes have been criticised as against the spirit of free enterprise and likely to affect business confidence by analysts as well as TV interests. Perhaps more significantly, they reverse a government decision on broadcasting made in late 1986 after a lengthy enquiry.

The government's 15 March announcement will affect the renewal of the licences of the two commercial stations, Hongkong Television Broadcasts (TVB) and Asia Television, which expire on 1 December 1988. The two stations have to comply with the new terms and conditions for their licences to be renewed for 12 years.

The Television Ordinance currently requires that 51% of shares be owned by local people or companies ordinarily resident in Hongkong, and that the majority of directors be British subjects ordinarily resident in Hongkong. The recent decision would limit to no more than 10% shares owned by any single foreign shareholder, though it would not require Australian investor Alan Bond to reduce the almost 30% shareholding he built up in TVB last year.

The definition of "foreign" is also to be changed to make it conform more closely to China's perceptions. Originally, local ownership was any British subject ordinarily resident in Hongkong. This was subsequently widened to any Commonwealth citizen — which

would include Australians such as Bond. Now, however, a local will have to be the holder of a "permanent identity card." This has been branded by critics as a singularly racist document as it excludes anyone not "wholly or partly of Chinese race" not born in Hongkong, but includes any person of Chinese race, whatever their nationality, resident in Hongkong for seven years.

The Secretary for Administrative Services and Information, Peter Tsao, told the REVIEW that control on foreign ownership was necessary so that TV stations would not "fall into hostile hands." This is said to be a reference to Taiwanese interests, but critics claim the move was targeted at critics of Peking, rather than at Taipei.

The move has negative consequences for Bond who built up his TVB stake at a HK\$14.00 (US\$1.80) a share, a price which analysts said could only be justified by ultimate control. Now Bond is to be denied the right to go for control. Analysts criticise this redrawing of the ground rules, and fear the move could damage Hongkong's appeal as a centre for foreign investment.

In November 1986, the government rejected proposals by its own Broadcasting Review Board (BRB) to separate TVB's broadcasting subsidiary from the holding company in order to prevent "abuses" caused by the corporate links. The then attorney-general, Michael Thomas, told Legco: "The government . . . proposes that the structure, ownership and control of TV licences should continue to be governed by existing policies and the spirit of existing legislation." However, the gov-

ernment said the Broadcasting Authority could in future propose to change the law if there were genuine grounds for concern.

The chairman of TVB, Sir Run Run Shaw, said the recent decision represented a complete reversal of the government's public commitment in 1986.

Tsao said TVB had outsmarted the government for many years by creating a holding company which owned the TV station as a subsidiary.

The reasoning behind the government's decision in 1986 remains unclear, but it is understood that Tsao, who was the policy secretary at the time, was sent away to Brussels as a result of a power struggle between him and a faction led by then chief secretary Sir David Akers-Jones.

Tsao is believed to endorse the BRB recommendations and he also has the support of Exco and Legco member Allen Lee, who is chairman of the Broadcasting Authority. The recent changes might be the result of attempts by Tsao and Lee to overturn what was decided in 1986. Whatever the explanation, they show how susceptible the government is to pressure, to passing fancy or to its own disunity.

TVB, the territory's largest and most profitable TV company, would be especially hard hit by the changes. Earnings growth from broadcasting is maturing, so additional profit sources have been developed in programme licensing and home videos, entertainment promotion, publishing and tour operations. A holding company was created to own the diverse operations, which held the licensee TV company as a wholly owned subsidiary.

TVB shareholders might benefit from any spin-off from these high growth assets. But TV broadcasting, the core asset, would be shorn of other earnings support, at a time when cable TV might make heavy inroads into the traditional viewing market. ■

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CHINA**Guess who's boss****Party leader Zhao pre-empts Acting Premier Li's debut**

By Robert Delfs in Peking

In a major policy speech on future political and economic reform, Chinese Communist Party (CCP) General Secretary Zhao Ziyang pre-empted Acting Premier Li Peng's debut performance at the opening of the seventh National People's Congress (NPC). Zhao's speech, delivered on 15 March at a plenary meeting of the CCP central committee, received wide publicity in China's major newspapers on 21 March — just four days before the NPC was to convene.

As a statement of policy, Li's expected report to the NPC on government work has, according to one Western diplomat, been "rendered meaningless" even before it was delivered. The practice of delivering an annual report on the work of government was initiated during Zhao's own tenure as premier and became an important platform for major policy statements.

Expanding on the reform programme he presented to the 13th party congress in October last year, Zhao called for greater openness in party and state affairs, changing the functions of government institutions and speeding up the economic development of China's coastal regions.

Zhao said: "We must speak the truth to the whole people about major incidents concerning social stability, explain policies and enlist people's support . . . through extensive dialogue.

This is vital to forming a mechanism of checks and balances among the people."

The central committee adopted Zhao's report and approved name lists of candidates for top state posts and for leaders of the Chinese People's Political Consultative Conference (CPPCC).

The decision to convene a party plenum immediately prior to the NPC session — the first time these two events have been scheduled so closely together since 1978 — seems intended to demonstrate that the authority to determine policy remains strictly in the hands of the party. The inescapable corollary is that Li's job as premier will be limited to implementation and execution.

This was already implicit last October. The breadth and detail of Zhao's 13th party congress report left little policy-making scope to the next premier. But there has been speculation recently in the Hongkong press that a new power struggle is under way between Zhao and Li, with Li supposedly representing the interests of conservative, anti-reformist elements of the leadership.

Since the political tremors of last year — caused by an open struggle between reformist and conservative party factions — even the appearance of divided authority has become abhorrent to the party leadership because of fears it could lead to serious destabilisation in the event of Chinese leader Deng

SOUTH KOREA**'Little' Chun's comedown****Former president's brother under investigation**

By John McBeth in Seoul

Only a month after handing over power, Chun Doo Hwan may be getting the uneasy feeling that his critics have started to snap at his heels as new President Roh Tae Woo seeks to put more distance between himself and Chun's Fifth Republic. Given the ominous storm brewing around his younger brother's management of the corruption-plagued Saemaul rural-development movement, he may be right.

If Chun was a decidedly unpopular figure, 45-year-old Chun Kyong Hwan — Little Chun, as he is known — is even more so. Beef growers, angry over his controversial 1984 importation of American cattle, referred to him in a recent REVIEW interview as "a national

traitor." And when he visited New Jersey's Kikoo Restaurant in 1986, Korean-American diners threw eggs at him.

With Roh publicly encouraging free expression, Seoul's newspapers have been homing in on the younger Chun. "There can no longer be any 'safe haven' to escape this kind of investigation," said the *Tonga Ilbo* newspaper in a pointed dig at past presidential protection. "To say it in more concrete terms, Mr Chun must not be left out of the people to be investigated."

Chun flew to Japan on 18 March as the controversy grew, but two days later he returned to face questioning by government prosecutors investigating the alleged misappropriation of billions of